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Participatory Development

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# Participatory Development

## Myths and Dilemmas

Robert Picciotto

Participatory development has potential as a unifying framework for the development inquiry. But more examples of success are needed to beef up the theory, and more theory is needed to illuminate an elusive development reality.

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Copies of the paper are available free from the World Bank, 1818 H Street NW, Washington, DC 20433. Please contact Anne Muhtasib, room F13-035, extension 84569 (July 1992, 22 pages).

The recent evolution of development thinking has highlighted popular involvement in decision-making. Yet policy gridlock and stop-and-go implementation have been associated with "excessive" responsiveness to interest groups.

The paper argues that the success with participatory development projects remains spotty:

- Communication between development policy professionals and grassroots practitioners leaves much to be desired.
- The discourse of development economics remains dominated by macroeconomists, while institutional economics remains at the margin of development research.
- The very concept of participation has not been subject to rigorous scrutiny, and a more systematic approach to participation appears desirable.

The focus on participatory development signifies an opening of development economics to disciplines other than macroeconomics. In particular, microeconomics and business administration must join forces under the umbrella of institutional economics, political economy should be rediscovered by development economists, and development practice should be shaped by all the social science disciplines.

To accelerate this process, Picciotto puts forward a transaction-based definition of participation and proposes a cost-benefit approach to the design of participation processes. He links participation to institutional development and suggests that the spread of constructive change from pilot to project to programs will not take place without the design of realistic wholesaling programs combined with policy and institutional reform at the macro level. Only then will indi-

vidual development operations find their ultimate justification in a sector and country. Strategic alliances among development agencies — global and local, governmental and nongovernmental — have to be strengthened to facilitate dissemination and to achieve results on a larger scale. Visible results in improved living standards, expanded economic opportunity for the world's poor, and a protected environment will be the acid test of global participation.

Four main recommendations for development policy flow from Picciotto's review of participatory development:

First, participation should be viewed as a vital complement to macroeconomic adjustment.

Second, institutional development is enhanced by policy reform and should be pursued in its own right as part of a country's development strategy. Achieving an adequate legal framework, civil service reform, and public information dissemination should have priority — as these elements help reduce societal transaction costs and risks.

Third, the institutional aspects of development projects and programs should be given appropriate weight. In this context, priority should be given to the full use of market mechanisms to concentrate scarce participation skills and resources where they have the greatest impact — on the creation and maintenance of public goods.

Fourth, special emphasis should be placed on the efficient production and dissemination of knowledge, as well as on telecommunications and transportation infrastructure, since these investments also facilitate efficient social and economic interaction.

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# Participatory Development: Myths and Dilemmas

by Robert Picciotto

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## **PARTICIPATORY DEVELOPMENT: MYTHS AND DILEMMAS**

### **1. INTRODUCTION**

This working paper has its origins in an absorbing and tumultuous workshop on participatory development sponsored by the World Bank and the Swedish International Development Association on February 26-27, 1992, in Washington D.C. The event brought together development scholars and practitioners, non-governmental organization leaders and multilateral development banks' staff, economists and non-economists.

Much common ground was found and a consensus emerged on practical recommendations to enhance popular participation in project design and financing. Still, it is fair to say that, by the end of the session, many appealing hypotheses were left dangling and the intellectual tension which had flared between economists and other development professionals remained palpable.

This paper seeks no policy or academic breakthrough. Its aim is to pull together seemingly disparate strands of development thinking and experience. After debunking some popular myths (Box 1), the development antecedents of participation are identified (Section 2) and a definition of participation is offered (Section 3). Next, a stylized theory is presented at the micro level (Section 4). Some implications are then drawn for organizational design (Section 5) and for development policy planning (Section 6).

While the paradoxes associated with participatory development will continue to fuel controversy, the concept appears to have potential as a unifying framework for development inquiry. To be sure, more examples are needed to beef up the theory and more theory is needed to illuminate an elusive development reality. In the spirit of participation, the reader is invited to help tie up the loose ends and to fill the gaps.

### Box 1: Five Prevalent Myths about Participation

Just as fertile soils attract pests, new policy insights generate myths. And just as hardy weeds blend in with the crops they infest, myths tend to be long lived if they contain a germ of truth. Accordingly, the metaphor of participatory development has spawned a number of superficially plausible myths.

- **"Participation is an end in itself"**

Irrespective of the end result, participation generates a sense of well being among group members. When the group fails to achieve its goal, it is natural for its leader to glorify the process rather than bemoan its disappointing outcome. However, emphasis on the intrinsic value of participation often dampens the appetite for results. When all is said and done, participation should be judged in terms of its contribution to substantive goals.

- **"The more participation, the better"**

Since special efforts are needed to motivate employees towards an organizational objective, it is natural for managers to emphasize the rewards to be secured through more participation. Conversely, members intent on influencing group activities are inclined to push for ever higher levels of participation. Yet, in the real world, organizations constrain the behavior of group members within appropriate norms; group leaders ration their time; and scarce organizational resources are judiciously shared between participation and other processes. One can have too much of a good thing.

- **"The larger the group, the better"**

This myth is convenient to leaders who measure their success in terms of organizational growth. This is a common predilection since leaders tend to derive financial benefits and social influence by ruling over large groups. However, bureaucratization and collective action constraints come into play as the group expands. The larger the organization, the greater the difficulties in maintaining cohesion, flexibility and economy in resource use. To maintain efficiency, countervailing restraints must be applied by other stakeholders; e.g. owners in a private enterprise; budget authorities for a public agency; etc.

- **"Participation makes control redundant"**

This myth is widely prevalent since the individuals subject to control constitute the vast majority of group members. However, control is not coercion. In any organization, controls are needed to validate progress, decide on mid-course corrections and deal with "free riders". Participation needs control just as control needs participation. Only utopian anarchists still believe in the vanishing of the State.

- **"Local decision making is invariably more participative"**

Understanding of local values, community backing for development initiatives and mobilization of local resources are essential ingredients of participatory development. However, decentralization of decision making can lead to pervasive control by local elites. Strong central authority is often needed to ensure fair allocation of resources and protection of disadvantaged groups.

## 2. PARTICIPATION AND DEVELOPMENT

The direct involvement of individuals in the resource allocation decisions which affect their lives has become a central theme of development. Thus, the "broader participation of all people in productive processes and a more equitable sharing of their benefits" is a major thrust of the Development Assistance Committee's Policy Statement on Development Cooperation in the 1990s.<sup>1/</sup>

This conception of development reflects promising policy trends in developing countries. The push towards broad-based participation is linked to the recent reorientation of policy towards poverty reduction; private sector development, human capital formation and environmental protection. Evaluation findings confirm that projects developed with sensitivity to social and cultural realities are more likely to deliver productive results. Beneficiary participation and community involvement have begun to permeate development assistance programs. The transition to democracy in Latin America, the collapse of communism in the former Soviet Union, and the political liberalization emerging in Africa have induced greater popular participation on a global scale. So is the realization that the shortcomings of development in the 1970s and 1980s will only be overcome through strategies which embody sustained adjustment and sound economic management.

Thus, the advent of participatory development will imply changes in development practice as well as in the focus of development research, operational evaluation and policy dialogues.

### Development Theory

Participatory development also coincides with the emergence of human development as a counterpoint to traditional theories which purport to describe vast societal and economic changes through simplistic equations. Stripped to their essentials, neoclassical models rely on a production function which relates output to the amount of capital and labor employed. Empirical efforts to validate these models have yielded discouraging results. Typically, half or less of observed economic expansion can be explained by labor and capital increments. In addition, capital intensive patterns of development have done little to achieve the fundamental objective of development—poverty reduction. The new growth economics <sup>2/</sup> incorporate human capital and technological progress as distinct factors of production. They recognize the role of people, knowledge and ideas in the development process, thus inviting non economists to trespass into development economics.

### Lessons of Experience

At the micro level, project evaluation studies have unearthed high failure rates, where beneficiary involvement is lacking and organizational capacities are overestimated. The importance of appropriate policy environments in determining project outcomes is well established. Project preparation, appraisal and implementation techniques are being retooled to incorporate up-to-date participatory techniques.

Equally, country dialogues are being affected. The excesses of central planning and State domination of productive sectors are now widely recognized. Conversely, triumphalism about instant market solutions to each and every development problem has become muted. The precise delineation of laws and regulations, the sequencing of reform, its scope and the institutional development strategies which must follow policy adjustment receive tailor-made solutions. A wide

range of experimentation is taking place as reforming countries seek solutions adapted to their diverse predicaments.

In this context, participation forms part of sound economic management if it enhances, rather than restrains, **flexibility** in the face of change. Successful adjusters have displayed a capacity to learn and adapt in response to technological and market shifts; altered global conditions or strategic moves by competitors. In turn, this has led them to implement market friendly policies, a supportive and flexible public sector and a judicious mix of debureaucratization, decentralization and deregulation.

Often, such reforms have required social sacrifices and/or have been disruptive to vested interests. Successful performers have been those in a position to rely on the maintenance of social cohesion in the face of severe shocks. They have drawn on a critical mass of political support to inaugurate adjustment and they have used participation to secure a durable consensus for reform; and to sustain desirable policy directions through flexible implementation strategies.<sup>3/</sup> Conversely, representative governments highly responsive to their electorates have found it difficult to adopt rigorous fiscal policies. No clear linkage has been found between democratization and economic growth. See World Development Report 1991, The Challenge of Development, Oxford University Press, June 1991, pp. 132-136.

### Governance

Participation is a component of governance. Irrespective of the political system in place, good governance implies economic management which is shaped by accountability, transparency and the rule of law. Despite wide dissemination of "best policy practice" and a broad consensus on the desirable ingredients of reform, policy reversals in developing countries have been numerous and, in the aggregate, development results have left much to be desired. Thus, given difficult global conditions, per capita incomes in developing countries declined in 1990 as well as in 1991, the only time this has happened since 1965 when the World Bank started collecting comprehensive data on developing countries.<sup>4/</sup>

Strategy is not implementation. The gap between making policy and getting things done must be closed. Responsiveness is not easily combined with efficiency in economies characterized by pervasive corruption, mistrust in the legal regime, civil strife, etc. Hence, the growing interest in the institutional dimension of development—i.e. governance.<sup>5/</sup> Simply put, governance goes beyond the policy itself and reflects a preoccupation with the constitution of policy and its implementation.

### Shifts in Sectoral Priorities

Yet another reason policy makers are struggling to define and adopt judicious participation strategies into the management of economies is the growing importance of sectors which demand collective action (see Section 6, below). A constructive engagement of the State combined with effective reliance on the market has become imperative to overcome the undersupply of public goods which has become an increasingly limiting constraint to economic growth.

A decade or more of restraint in public expenditures has created a large infrastructure gap.<sup>6/</sup> The worldwide information economy is dependent on effective telecommunications networks which require significant investments. The cyclical pattern of energy prices as well as growing environmental constraints on the development of traditional energy sources are likely to trigger massive investment requirements before the end of the decade. In order to keep food production in line with needs (while arresting the degradation of the natural

environment), large outlays for agrobiological research and improved soil, water and forest resources management systems are called for.

In all these areas, a suitable balance between economic, social and environmental objectives will have to be struck; a mix of public and private funding will have to be raised and more efficient management and service delivery arrangements will have to be constructed. New relationships between the State, the private sector, producers, consumers and the public at large will have to be forged. The design and operation of such alliances will be a major objective of development in the 1990s and beyond.

### **More Rigor Needed**

In short, the recent evolution of development thinking has highlighted the role of popular involvement in decision making. Yet, policy gridlock and "stop and go" implementation has been associated with "excessive" responsiveness to interest groups. Successful experience with participatory development projects remains spotty. Communication between development policy professionals and "grassroots" practitioners leaves a great deal to be desired. The discourse of development economics remains dominated by macro-economists while institutional economics remains at the margin of development research. The very concept of participation has not been subject to rigorous scrutiny. A more systematic approach to participation appears desirable. This working paper is designed to encourage additional research and evaluation work on the subject.

## **3. PARTICIPATION DEFINED**

Some participatory development advocates equate participation with the legendary philosopher's stone—the universal solution to mankind's problems; the key to prosperity and social harmony; etc. But the concept also encompasses more prosaic meanings. To participate is to partake, to share, to own. In a club, it means enjoying social activities <sup>7/</sup> In sport, exerting efforts on behalf of the team. In business, sharing in the risks and rewards of an enterprise.

The term is elastic. It describes either a process or a means towards an objective. As a process, it denotes individual involvement in group activities. As a goal driven concept, on the other hand, it encompasses the social interactions which characterize a group as well as their contribution towards a desired end result.

In this paper, participation is the sum of the human transactions which take place voluntarily (within and across organizations) in a society aiming to achieve sustainable and equitable economic growth. This formulation excludes coercive and violent interactions. It implies transparency in the process of participation as well as accountability for its outcomes. The definition is broad but it invites the decomposition of participatory development into its major components—from the micro (organization) level to the society as a whole.

Participation takes many interrelated forms. It is shaped by the interests of participants, their relative status, their access to resources and the information available to them regarding the benefits and costs of future interactions.

The institutional framework defines the boundaries within which participation takes place, the penalties involved in transgressing them and the benefits which may materialize. At its most basic level, participation involves listening, validation of information, sharing of perceptions and opinions, declarations of value and interest, etc. This is the appreciation phase of



participation. Next, active consultation, persuasion, exploration of options, coordination of plans and negotiations of collaborative arrangements may intervene. This is the **influence** phase which may lead (but not invariably so) to joint decisions consecrating an exchange and/or a new relationship among participants, governed by informal protocols or embodying specific rights and obligations for the participants. This is the **consummation (or contractual)** phase, a threshold which must be crossed before the **action or implementation** phase of participation when the fruits of cooperation are reaped and the resiliency of the collaborative arrangements are tested. Throughout the process, and especially during the **action** phase, learning takes place, lessons are drawn and adjustments are made in the relationships. This eventually leads to the **evaluation** aspect of participation, when feedback into future participation cycles is provided.

At all stages, participation involves implicit or explicit rules of conduct generated by the participatory process itself or by the cultural context and it fulfills a wide range of functions: representation; influence; deliberation; mediation; negotiation; consultation; etc. How do these transactions affect societal efficiency? How do they contribute to development?

For the neoclassical economist, institutions do not matter. But in the real world, they do: economic development depends on more than population growth and the savings rate. Productivity arises from specialization and trade as well as from technological progress and resource allocation. Economic theory shows that division of labor combined with structured exchange allows satisfaction of needs to be matched with efficient remuneration of producers' efforts. As products and services become more differentiated to meet increasingly diverse consumer needs and tastes, the production process requires increased cooperation among a plurality of economic agents. Further, as new techniques of production and communication emerge, specialization induces additional trade. And, in parallel with increasingly complex economic systems, more intricate social structures must come into existence.

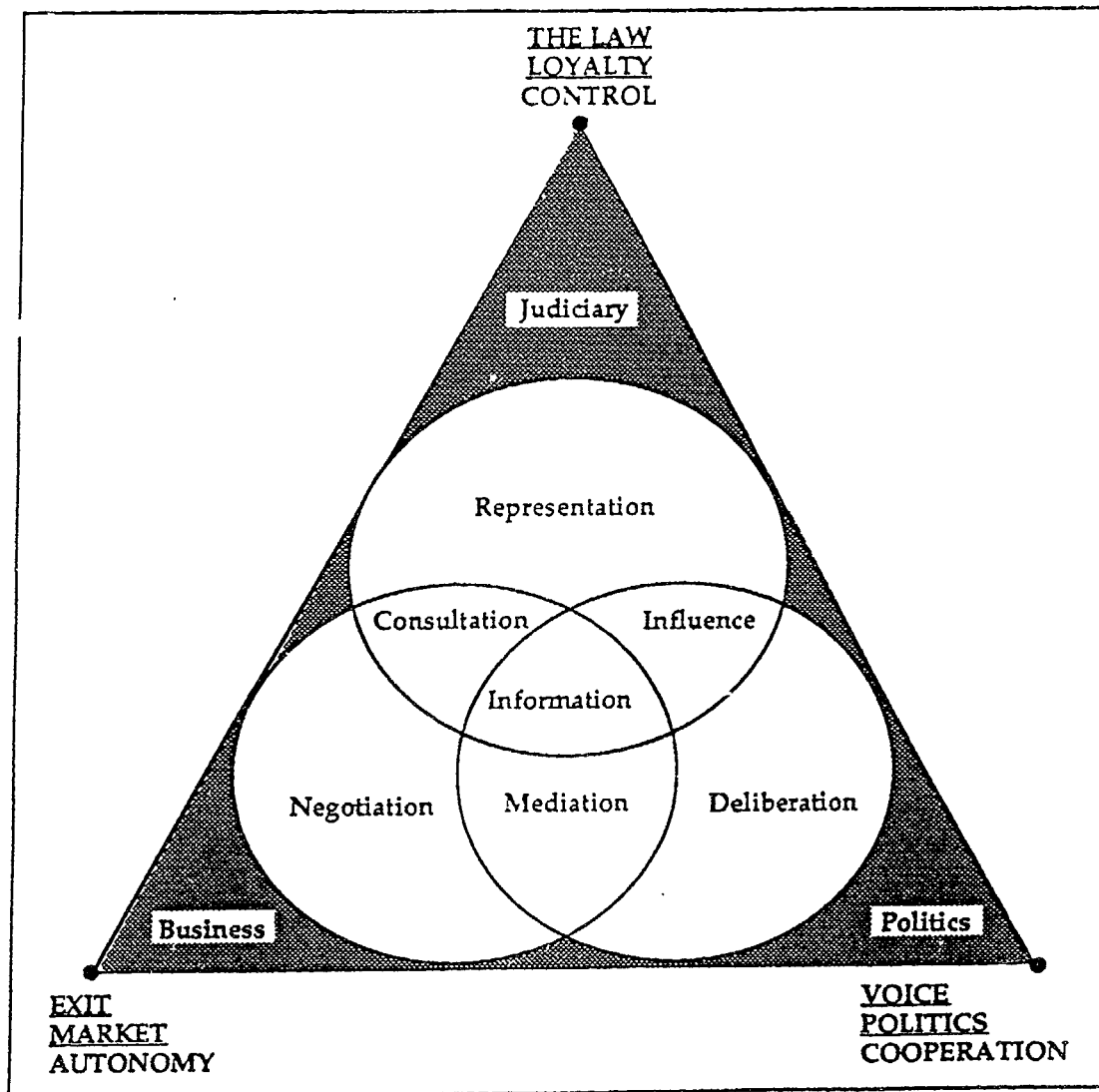
In short, economic growth requires a vast increase in the volume, diversity and complexity of transactions within and among organizations.<sup>8/</sup> Participation within firms involves cooperative relationships through design and observance of rights and obligations between owners, managers, employees and suppliers. Efficient production and trade call for predictable forms of interaction among organizations as well as protocols of access to information, resources and common facilities. This in turn requires social arrangements which regulate behavior and facilitate cooperative action in the public interest.

For sustainable development to take place, the efficiency of these arrangements must improve as the volume of transactions expands. This is where participation comes into play both within and among firms. Properly understood, participation is what distinguishes development from mere growth.

Definition of transaction goals, settlement of terms and regulation of rights and obligations take place according to prescribed role-expectations, sanctions and norms. The resulting network of relationships (i.e. the role and the status of individual social agents) constitutes the institutional framework of participation. Thus, participation pervades all aspects of the political economy and of the civil society. Box 2 illustrates how political, legal and market institutions influence and help to define participative processes.

### Box 2: Participation in the Society

Social interactions can usually be described in economic, political or legal terms. In some cases (e.g. an auction; a political convention; a trial) the transactions are specialized and best analyzed from the perspective of a single discipline (economics; politics; the law). In others (e.g. a development scheme) the transaction may have several facets or purposes which may be illuminated by more than one social science. A rough typology is displayed below, using the triangular design approach proposed by Robert W. Keidel.<sup>9/</sup>



It is, therefore, apparent that public transactions (right hand corner and apex of triangle) grow together with the private transactions which make up the market. As the volume of market transactions expands, complementary non-market processes become imperative and the State must intervene to do things which the market cannot do for itself. Maintenance of competitive conditions enhances freedom of exchange and expands consumer choice. Regulatory action to deal with externalities (e.g., polluting industries) requires government intervention. So does the delivery of public goods (e.g., infrastructure) upon which efficient production activities depend. Last but not least, enforcement of law and order (the apex of the triangle) prevents asocial coercion from interfering with voluntary and orderly exchange. The fundamental paradox of development lies in the fact that, as economic growth proceeds, markets become more efficient by virtue of their size while non-market transactions (required to sustain the market) tend to become more complex and to require new political coalitions, cultural shifts and institutional reforms. Hence, the fundamental importance of cost effective participation.

#### 4. THE ECONOMICS OF PARTICIPATION

It should be clear, by now, why economic development involves a quantum change in the volume of social and economic transactions. Since transacting takes place within and among firms, we begin with a simple model of participation within the firm. We take for granted that communications resources as well as participatory skills are in short supply.

In such circumstances, just as inadequate participation is undesirable, a relentless search for ever more participation can be counterproductive. What then is the appropriate level of participation? What are the constraints to effective participation? To answer these questions the costs of participation must be weighed against its benefits.

Participation costs within the firm are related to three factors: (i) the number of communication links among units in the firm; (ii) the frequency of transactions carried by these links; and (iii) the average intensity of the average transaction.

The **number of units** is a function of the degree of autonomy needed within the firm to handle its mandate. The following formula relates the number of units  $N$  to the **number of potential communication links** among them:  $L = N(N - 1)/2$ , a parabolic curve. Hierarchical structures, decision-making processes and norms limit the number of channels actually used but, other things being equal, information flows and transactions rise with the number of units.

The **average number of transactions** is a function of the self sufficiency of the individual unit: the more specialized the business, the more transactions needed to achieve a desired outcome, the greater the need for cooperation and the higher the frequency of transactions. Finally, the **average intensity of the transaction** depends on the efficiency achieved in process management within the firm, a function, among other things of the effectiveness of controls and of the degree of cultural cohesion and corporate loyalty. The more effective the controls, the more commitment to group goals, the more homogeneous the organizational culture—the lower the intensity and cost of the average transaction.

Thus, the costs of participation are especially high in organizations which require a great deal of custom made work and internal **autonomy**. Cost is also a function of the **complexity** of the organization's activities, and hence of the degree of **specialization** required within the firm; (see Box 3). The more diverse the owners, clients and products; the finer the role definition of units and employees; the greater the need for involving owners, suppliers, middle managers and employee representatives in policy formation; and the heavier the transaction costs. Finally, the stronger the traditions and culture of the organization, the greater the voluntary compliance of its membership to organization norms, and the lower the intensity and costs of the average transaction. With **cohesion, discipline, and organizational harmony**, the resources required for mediation and consensus building are greatly reduced.

In the words of Kenneth Arrow: "Trust is an important lubricant of a social system. It is extremely efficient; it saves a lot of trouble to have a fair degree of reliance on other peoples' word. Unfortunately, this is not a commodity which can be bought very easily ... Trust and similar values, loyalty or truth telling, are examples of what the economist would call 'externalities' ..." 10/

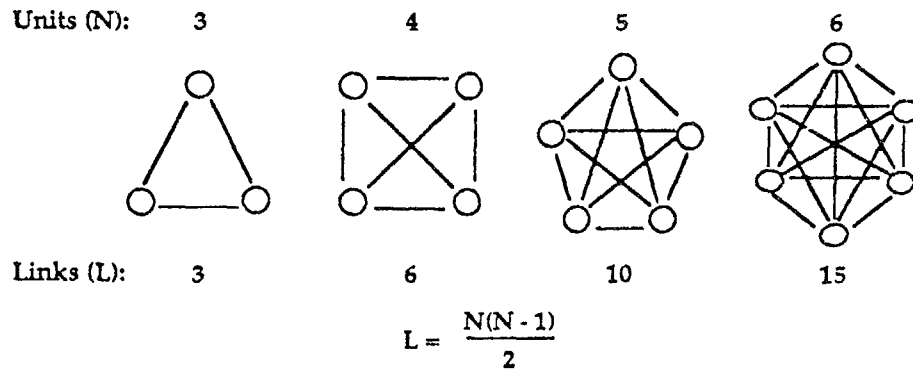
The same structural and cultural factors come into play with respect to the benefits of participation but, in addition, process comes into sharp focus. Participation is the vehicle through which representation (and hence legitimacy) is achieved and support for organizational goals is secured. It is also an information medium and a way of eliciting employee motivation and consumer loyalty. Finally, it is a coordination mechanism which complements formal control processes where these are cumbersome or time consuming.

In Section 3, participation was defined as a voluntary process which takes place in five stages—appreciation, influence, consummation, action and evaluation. Not all phases of this cycle need to be experienced for participation to take place: the benefits expected to accrue to one or more of the participants may not justify the costs of moving from one phase to the next. Besides, the voluntary character of participation makes the possibility of "exit" a litmus test of the credibility and integrity of the participatory process. For example, where power relations are asymmetrical, the group leader may skip the appreciation and influence phases and resort to the threat of exit. In such circumstances, participation is mobilization and its voluntary character may be questioned. Yet, the power of the weak is often underestimated. Nor, under most social circumstances, is exit likely to be entirely free of cost or penalty.<sup>11/</sup> Therefore, the appreciation and contractual phases are often occasions for the participants to specify the thresholds to exit which they voluntarily undertake to establish. Typically, the expected benefits associated with participation rise from appreciation to influence and to the consummation of a contract. From then on, the difficulties of cooperation and the impact of exogenous constraints become evident and can lead to diminishing and eventually declining expectations of benefits. Heavy upstream participation is therefore an effective strategy only where it conforms with realistic responses at the downstream phase. The management of expectations is a crucial test of leadership in any participatory process.

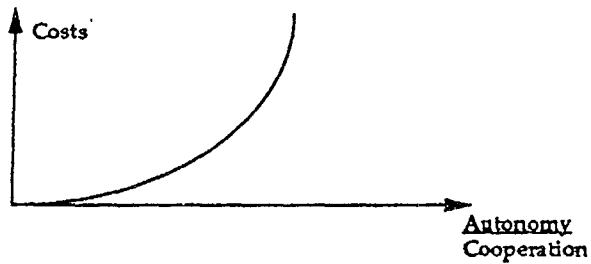
Therefore, the coordination, informational and motivational advantages derived from participation are highly variable. They depend on the specific stage of the participative process. Where a participative transaction contributes to a productive investment (e.g. through cooperative involvement of beneficiaries in project design and maintenance), its returns can be ascribed in part to the costs incurred in participation. Similarly, the benefits of a reform are related both to the design of the policy measures and to the resources used in securing support among stakeholders. In general, participation is needed to secure a judicious balance among interests and, hence, commitment to the success of the initiative. Typically, easy choices (benefitting all parties) are made first and yield handsome returns. But as these "win-win" options are exhausted, benefits are

## Box 3: Costs of Participation

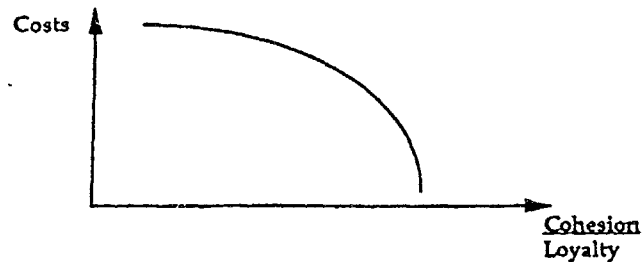
## THE MORE UNITS, THE MORE COMMUNICATION CHANNELS



## THE COSTS OF PARTICIPATION DEPEND ON THE NEED FOR AUTONOMY AND FOR COOPERATION



## THE COSTS OF PARTICIPATION ARE LOWERED BY ORGANIZATIONAL COHESION AND EMPLOYEE LOYALTY



more and more difficult to achieve. Indeed, diminishing returns eventually turn into negative returns (point M) as the centrifugal forces which are inherent in autonomy, a larger group and a greater number of participating units end up overwhelming the benefits of the participation process. Hence, curve B in Graph 1 (Box 4).

The fundamental difference between market and non-market participation is that the former permits autonomy and diversity through choice while the latter must, by definition, seek conformity without unanimity. Beyond a certain point, the satisfaction of divergent private interests requires compromises in policies or program design which can undermine the overall interest. The challenge of participation is to secure sufficient harmony to generate and sustain action without sacrificing the essentials of the initiative. However, not every interest can be satisfied and participation processes can quickly reach an impasse where there is strong opposition to change, even from a small minority. This explains why organizations as well as societies need decision protocols and hierarchical structures which eventually come into play as the limits of cooperation are reached. Conversely, the strains to cohesion and stability which arise when controls are repeatedly exercised (e.g., to silence vocal minorities) suggest that ample use of the market and full scope for cooperative behavior must be practiced at the outset to achieve constructive change without forsaking stability. The unique task of participative leadership is to shift positions from autonomy to cooperation, to control as circumstances evolve.

Size is not a neutral design factor. The larger the organization, the higher the unit costs of participation. This proposition rests in part on psychological factors: once a group exceeds 8-12 people, formal processes tend to be needed and these are more costly. Of course, organizational design and management skills can minimize the disadvantages of large scale by "building in" the requisite mix of autonomy, cooperation and control. But the dysfunctions of collective action for large groups impose constraints which are not easily surmounted (Section 6). Therein lie the diseconomies of scale commonly associated with bureaucracies. Small scale favors autonomy and, hence, client responsiveness, as well as market flexibility—and it yields lower transaction costs. The optimum scale for an organization is reached when the economies of scale associated with the production process (dependent on the fixed costs of market entry and on the requirements of specialization) yield to the increased costs associated with longer decision making lines and higher internal transaction costs.

Participation can also be viewed from the perspective of a production function where output depends on various factors, including labor and resources spent in participation.<sup>12/</sup> Imagine a simplified model involving a firm that has a fixed amount of labor time to be allocated between direct production activities and participation. A condition for maximization is that the marginal product of labor in the two activities should be equal. If the productivity of labor in direct production activities goes up, the time spent in participation would, other things being equal, go down, i.e., the efficiency of participation would need to be enhanced to justify the maintenance of existing participation levels. Of course, different kinds of production functions yield different outcomes and the value of participation is likely to be quite different depending on the shape of the marginal cost curve for participation. For example, in a routinized marketing process, relatively small amounts of participation may be optimal while a multi-disciplinary team working on a development project might need a lot of participation.

As feedback in cybernetics, excessive participation is likely to yield instability. Equally, adjustment of the system to exogenous shocks depends on the activation of relatively small but crucial compensating control mechanisms. The geometry of the structure is interlinked with the engineering of participation processes. To achieve equilibrium, control intervenes.

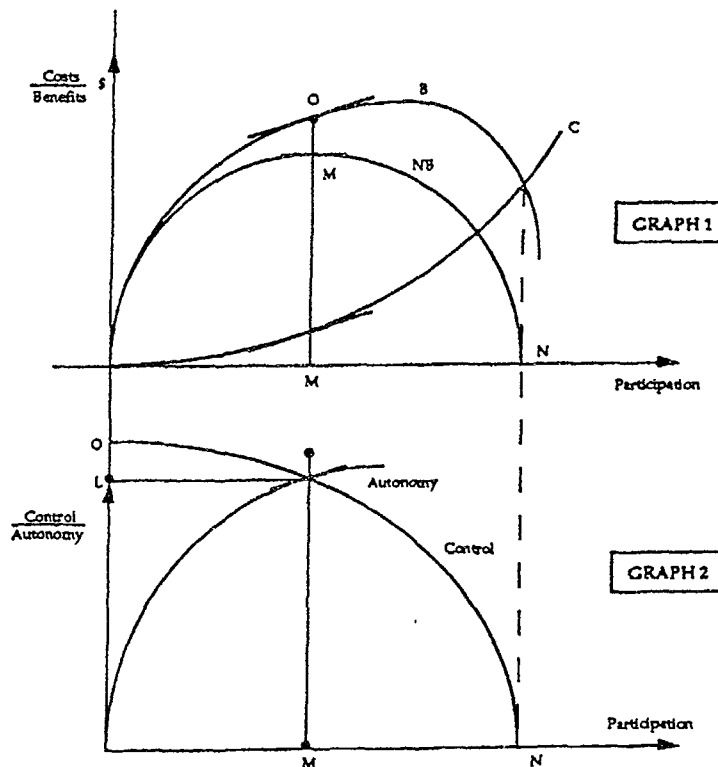
#### Box 4: Participation Costs and Benefits

The schedule of costs and benefits vary from organization to organization and depend on the overall institutional environment. But it is possible to elucidate its general shape by speculating about the underlying determinants of organizational transactions. On the cost side (curve C in Graph 1), a monolithic organization (homogeneous ownership; zero autonomy) requires no participation outlays at all. As autonomy increases (if only because of the growing size of the organization), the cost of participation rises. It does so rather steeply because the number of transactions rises faster than the number of units within the organization given the need for lateral as well as vertical communication.

Risk factors are important in shaping social interactions. One of the benefits of participation is to reduce uncertainty and risk. Thus, market diversification and ownership heterogeneity can lead to significant participation costs which may, however, be justified in terms of lower risks. Hence, the important linkage with the control aspects of the organization. Full voluntary participation must be secured if no controls exist and no participation whatsoever is needed if 100% reliability is achieved through formal controls. Hence, for a given level of autonomy, the relationship between control and participation is displayed in Graph 2.

The optimum level of control (C) yields the level of participation (M) which produces the greater excess of benefits over costs. Of course, if this level of participation necessitates lower achievements with respect to other important institutional goals, another option may be selected. However, by the time participation has reached level (N), it has exhausted its utility and begins to be positively harmful.

The graphs illustrate the plausible proposition that the harmonious fit of structure and process in an organization requires explicit choices and that, in considering them, the costs and benefits of transactions must be taken into account.



The calibration of controls in response to changes in external conditions is a management function. Leadership consists in facilitating organizational change to ensure compatibility between the requirements of the component actors while achieving the objectives of the organization. Of course, where people are concerned, ethical concerns are fundamental and intervene through corporate, cultural and religious norms—e.g. the reciprocity factor found to underlie most formal and informal processes of participation.

There is no automatic congruence between the interests of each and every individual in a group. Effective functioning of the group involves securing the participation of a sufficient share of the membership and motivating them to achieve group objectives. This calls for incentives and penalties and therefore the authority to calibrate reward and punishment. A successful group does not necessarily meet in full the needs of all participants. But there are minimum needs which must be met to avoid serious dysfunction and ultimate disintegration.

## 5. IMPLICATIONS FOR ORGANIZATION DESIGN

Because organization is a fundamental determinant of economic and social outcomes, analysis of organizational aspects is an important, albeit neglected, aspect of development. In principle, development program evaluation should include the design, selection and evaluation of organizational options in terms of their efficiency and effectiveness in achieving project or program objectives.

For most organizations, responsiveness, efficiency and sustainability, are relevant objectives. To achieve them in appropriate combination, the organization must deliver products or services of adequate quality at reasonable cost, where and when needed. In turn, this signifies an appropriate mix of flexibility, efficiency and reliability in the conduct of organizational functions.

Internally, participation motivates employees as a complement to financial incentives and employment security. Participative management is especially beneficial where quality of output is prized. And as suggested above, it is most needed in volatile market situations when survival demands organizational flexibility, and demands a substantial degree of internal autonomy. There is, on the other hand, a point beyond which participation becomes excessive, e.g. in terms of the timeliness of decision making—or simply because the same results can be achieved more economically through financial incentives or internal controls.

Externally, the nature of participation hinges on whether the organization faces competition or acts as a monopoly. In the former case, the role of participation is largely borne by the market, at least insofar as interaction with consumers is concerned. In the latter case, the design of explicit participation processes is crucial to achieve consistent organizational results. This is akin to the role which Albert O. Hirschman ascribes to "voice"<sup>13/</sup> as a recuperative mechanism for declining monopoly performance.

The challenge of organization design is to set up for each function (as well as for the entity as a whole) structures, processes and management styles which, in terms of organizational goals, deliver the right mix of autonomy, participation and control within the organization as well as outside it (e.g., in relation to clients and suppliers). Control helps to guarantee reliability of processes and, through risk management, institutional survival.



It is in the integrated design of structures (which define autonomy); processes (which facilitate participation and specify controls) and organization culture (which ensure congruence and harmony) that the art of organizational design lies. Key elements of organizational design are displayed in Box 5 and a development illustration is provided in Box 6.

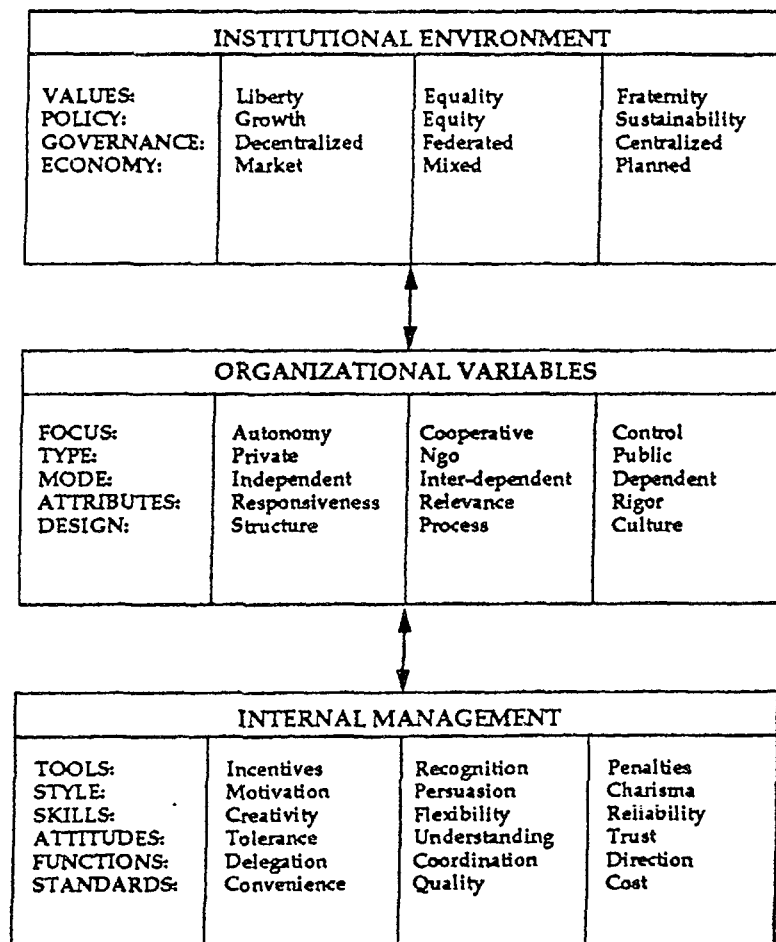
There are, of course, close linkages between the internal and the external dimensions of participation. In a competitive environment, the organization is under pressure to sell at market driven prices and to keep costs low so as to generate a profit for the stockholders. It must also keep its most productive employees motivated lest they be hired away by aggressive competitors. Thus, the market induces management not only to seek efficient choices in production processes and technologies but also in organizational structures and participation process options.

### Box 5: ELEMENTS OF ORGANIZATION DESIGN

Development is a function of policy, institutions and programs. Policy reflects the values of the society and the exigencies of the global economic climate. Institutions are shaped by history, culture and tradition.

Programs (and projects) have technical, economic, financial and organizational dimensions which are routinely submitted to review and appraisal by decision making bodies. In this context, organizational design features need to receive the same kind of rigorous scrutiny as other aspects. This is a multidisciplinary art. The matrix below provides analytical elements to assess organizational options. Since an effective organization requires compatibility between the overall cultural content and internal management and organizational variables, consistency in the triangular mix of instruments and characteristics should normally be sought. For example, a highly centralized organization would not be suitable for the management of a creative organization operating in a highly competitive environment.

Graph: Elements of Organizational Analysis



### **Box 6: ORGANIZATIONAL DESIGN FOR AGRICULTURE EXTENSION**

The Training and Visit (T & V) system is an important development innovation. It illustrates the power of organization design in pursuit of development goals.

The object of agriculture extension is to disseminate modern technology so as to improve farming productivity. Prior to the introduction of T & V in India, agriculture extension agents reported to the community development ministry and handled a wide range of administrative functions. Their contacts with farmers were limited and they had little of value to communicate to them. T & V shifted the line of command to the agriculture administration and imposed management standards which induced regular contacts between extensionists and designated contact farmers and farmers' groups. T & V also required a weekly training session handled by the agriculture research administration focussing on selected agriculture practices geared to the farming calendar.

This disciplined, predictable cycle of interaction between farmers, extension agents and research scientists has dramatically reduced the average cost of knowledge dissemination by focussing extension agent activities on technological transfer instead of administrative chores. While the prior community development system involved very heavy participation with the rest of the rural bureaucracy, effective controls were lacking—and productive participation between extensionists to farmers was limited.

Thus, T & V provides an illustration of the positive impact which a reduction in internal participation coupled with increased outside participation (and enhanced controls) can yield in certain situations. Unsurprisingly, substantial changes in management practices within the extension department, promoting pride in (and loyalty to) the service, are needed to accompany the more rigorous control environment, e.g. enhanced living conditions, transport and other incentives.

In the absence of market discipline, similar pressures can be simulated to provide the impetus for organizational change and to reduce transaction costs. These include the use of customer "voice" combined with a hard budget constraint; pressures from the political hierarchy; highly selective recruitment and promotion standards; "results based" incentive systems; set up of competitive units within the organization; privatization or subcontracting; monitoring against performance benchmarks; competitive bidding for service provision; appeals to professional standards; appeals to national pride, etc.

Whether in the public or the private sector, change is not automatic. Vested interests and organizational inertia inhibit change. Reform is dependent on the framework of incentives, the orientation of economic policy and the norms of behavior of the society at large. Conversely, policy and legal reform may not be sufficient to achieve results unless organizational capacity is adjusted to deliver more efficient behavior. In brief, the engineering of institutions is as important as the adjustment of policies.

## **6. PARTICIPATORY DEVELOPMENT: DILEMMAS AND POLICIES**

The focus on participatory development signifies an opening up of development economics to disciplines other than macroeconomics. The ongoing effort to enhance policy design and program implementation means, in particular, that microeconomics and business administration must join forces under the umbrella of institutional economics; that political economy should be

rediscovered by development economists and that development practice should be shaped by all the social science disciplines.

Pragmatism and emphasis on experimentation is a major thrust of participatory development: capacity building for development includes but goes beyond organizational design. It involves multi-organizational systems, coalition building and the associated intricacies of the political economy. Development is, in particular, peculiarly vulnerable to the special collective action problems posed by public goods.

### Public Goods

Voluntary and market arrangements cannot always be relied upon to generate adequate output and equitable allocations for public goods, i.e., goods which are accessible to, and jointly consumed by, large numbers of individuals and/or firms. Distribution of resources for production, as well as exercise of rules and regulations on output and delivery performance raise issues of fairness and organization design which usually call for the establishment of adapted (and often counter-intuitive) participation mechanisms. In many cases, access to information, channelling of users' preferences and effective revenue generation call for complex institutional designs which must rely on relative small organizational units within which voluntary compliance is feasible. This is because of the special problems associated with participation in large groups. The paradox, effectively articulated by Mancur Olson 14/, lies in the fact that in large groups, individuals will not normally exert themselves on behalf of the group precisely because the gains from their exertions will accrue equally to all members of the group so that they will only receive an infinitesimal share of the benefit from their efforts. In the absence of countervailing arrangements, the incentive for group action diminishes as the group expands.

A corollary of this paradox is that large organizations are less able to act in their own interest than small ones and that small groups tend to be more effective than large groups in the sustainable production of collective goods (e.g. ensuring maintenance of an irrigation pump). Another is that selective incentives to participation are essential for a sustained effort to overcome the free rider problem (e.g. the linkage of irrigation officials' remuneration to the level of water charges collected). Still another is that penalties are often crucial to achieve sustainable results, especially in large groups (e.g. interest surcharges for delinquent borrowers in a credit cooperative).

The difficulties associated with maintaining a cohesive group effort despite the "free rider" problem underlie the need for focussing participation resources where they have the highest payoff. Hence, the utility of resorting to markets where feasible. Indeed, effective priority setting in development program design starts with the selection of interventions which can be safely left to the market. But the solution to the "free rider" problem also calls for management norms and enforcement mechanism which transcend the dilemma, thus bringing back (at the macro level) the themes of solidarity and control as mediating elements of effective participation earlier encountered at the firm level.

While the costs of imposing control can be minimized through participation, the effectiveness of participation hinges on such factors as reciprocity and trust which are themselves a function of the competence and integrity of the leadership, social bonding, tradition, and other non economic motivations—the crucial loyalty factor which is the most elusive aspect of institutional development.

In many development ventures, consumption and production are not easily distinguished. For example, students and their families are in large part co-producers of the ultimate output of schools and universities. Users of a rural road or a public fountain, depending

on their behavior, can extend the productive life of a common facility by several years. This is why partial "beneficiaries" of projects are ultimately owners of the public goods created and must be systematically involved through appropriate organizational arrangements in the operation of the common facilities.

### **Country Factors**

Country conditions shape participation. Culture, ideology, religion and the law are major determinants of social and economic behavior. In particular, enforcement of property rights and trade reform can be fundamental to the reduction of transaction costs. Conversely, social restrictions (e.g. caste) can inhibit cooperation and restrict factor mobility. And obviously, instability in the political system contributes to transaction risks and costs.

The reduction of transaction costs through institutional development is at the core of sustained economic growth. The creation of specialized organizations, the dissemination of new institutional norms, and the gradual adoption of behavioral standards which favor reliability and trust in social transactions are basic ingredients of growing factor productivity.

The more developed the economy, the more impersonal the exchanges, the more complex the institutional framework and the larger the volume of transactions. In modern societies, contracts are common and transaction costs low. Not only do enforcement mechanisms exist but they are trusted as competent and reliable. In such a framework, participation is best focussed on the areas where they have the highest payoff (public goods). Elsewhere, participation is needed mostly as a social deterrent, an institutional reserve or a form of insurance against declines in system performance.

Participation models grounded in developed country environments are not, however, readily replicable to societies where institutions are weak and transaction costs are high. In such situations, authoritarian solutions are tempting. But experience suggests that whatever authority exists must be complemented by participation in order to achieve effective outcomes. For example, where large numbers of people are involved and scarce resources must be rationed, the costs of coercive control are prohibitive since group members will seek unrestrained access through bribing and evasion in such large numbers that enforcement will not be feasible and deterrence will lack credibility.

Box 7 illustrates how the key to this prisoners' dilemma lies in participation, i.e. in judicious leadership and the use of information and incentives to persuade participants that the worst outcome for all lies in anarchic behavior. Such an effort is best carried out close to the ground to evince confidence in the rationality and competence of the officials in charge and to enhance peer group pressure towards cooperative behavior. Only then can aberrant behavior be restricted to the point that social deterrents become operative by focussing control resources on a manageable segment of the total group.

### **The Development Agenda and Participation**

Fundamentally, development is the search for increased individual autonomy, equitable opportunity and sound environmental management. Given the risks of bureaucratization and the limitations of the market, a continuous, open and free debate regarding the goals and values of the society can help ensure that policy design and implementation remain focussed on suitable goals and modalities.

### Box 7: THE DILEMMA OF WATER MANAGEMENT

In the typical command area of a South Asia irrigation project, farmers and irrigation officials are trapped in a prisoners' dilemma convincingly analyzed by Robert Wade.<sup>15/</sup>

Typically, system design is such that water supply is scarce and deliveries uncertain. Given the profitability of high yielding varieties dependent on timely water applications, most farmers want to take more water than they are entitled to. From the perspective of an individual farmer, the preferred option is to have unrestrained access to water while others abide by the rules. The second best is for the individual farmer as well as others to comply with the rules. The third best is for everyone to grab what he can.

Given this order of preference, the equilibrium arising out of autonomous, "rational" decision making is for the third option to materialize. This is, of course, the worst possible solution as it involves bribing, water stealing, destruction of structures, even violence. There is no simple way out of the dilemma which ultimately arises out of farmers' distrust both of the reliability of the irrigation system and of the integrity of irrigation officials.

Progress towards the second option is, however, possible by improving the design of the physical and the institutional system. For example, reduction of system losses and improved control structures can increase supplies and suitable water deliveries guaranteed up to a "breakpoint reservoir" serving a farmers' group served by a water users' association.

By enhancing effective control by reducing its scope and promoting voluntary involvement in water deliveries, reliability is enhanced. Of course, restoration of trust is likely to require complementary improvements in internal management, including monitoring of system performance, independent inspections, incentives for good performance, etc. Successful models embodying these features exist in East Asia where, in addition, water management finances are often linked to water revenues.

At the macro level, participation processes differ depending on the mix of development priorities. Different organizations are involved depending on the policy objective. Hence, distinct participation strategies must be designed to secure ownership of adjustment and environmental programs. This means eliciting the cooperation of influential groups and individuals so that reform can be made to stick until the overall momentum of change proves irreversible.

If growth is the predominant priority, autonomy has pride of place and participatory processes are both in high demand and, (once the enabling environment is adjusted through reform), can readily be supplied through market mechanisms. Where public goods are concerned, difficult tradeoffs usually exist between the equity of institutional arrangements and the ease of resource mobilization.

In today's global economy and interdependent ecology, participation is taking place in a supranational context. In the process, new notions of human solidarity are taking root and new global organizations are emerging.<sup>16/</sup> But these too must be mediated at the local level in order to shape realistic incentives and control mechanisms and bring about outcomes which are sound, efficient, equitable—and sustainable. The need for social cohesion in the face of rapid global change makes domestic ownership of development programs crucial to sustainability. To nurture such commitment, participation through coalition building and agenda setting provides a practical alternative for the heavy, coercive and, in the end, ineffective controls which would have to be attempted without it.

The sharp reduction in communication costs resulting from technological progress has already shifted the participation supply curve in a highly favorable direction for the global economy. This opens up opportunities for developing countries willing and able to accelerate reform and institutional development. Through economic reform, markets exert powerful pressures towards organizational efficiency<sup>17/</sup> and act as effective coordination mechanisms for a larger volume of transactions. Given institutional development, the costs of transacting are reduced through more efficient management and greater certainty in participation outcomes.

### **From Micro to Macro Participation**

Much has been said about the diseconomies of scale associated with participation. It is the basic rationale for the often misunderstood "small is beautiful" principle. To do things right often means to do them on a small scale. But the development enterprise is too vast—and the human needs too urgent—not to attempt effective replication and dissemination.

The spread of constructive change from pilot to project to programs—so as to embrace the society at large—will not take place without the design of realistic wholesaling programs combined with policy and institutional reform at the macro level. Only then will individual development operations find their ultimate justification within a sector and country context. At the global level, strategic alliances among development agencies (global and local; governmental and NGOs) will have to be strengthened to facilitate dissemination and to achieve results on a relevant scale. Visible results in terms of improved living standards, expanded economic opportunity for the world's poor and a protected environment will be the acid test of global participation.

Thus, while projects can help trigger reform and pioneer institutional change, participation is a country development imperative as well as a global challenge.

### **Conclusions**

Some development policy recommendations flow from the above review of participatory development.

**First**, participation should be viewed as a vital complement to macroeconomic adjustment. Since policy is itself a public good, participation is needed in order to secure participation.

**Second**, institutional development is enhanced by policy reform and should be pursued in its own right as part of the country development strategy. The development of adequate legal frameworks, civil service reform and public information should normally have priority as these elements help reduce overall societal transaction costs and risks.

**Third**, the institutional aspects of development projects and programs should be given appropriate weight and, in this context, priority should be given to the full use of market mechanisms so as to concentrate scarce participation skills and resources where they have the greatest impact—public goods creation and maintenance.

**Fourth**, special emphasis should be placed on well managed, efficient knowledge production and dissemination as well as on telecommunications and transportation infrastructure since these investments also work to facilitate efficient social and economic interaction.

## ENDNOTES

- 1/ A concise overview of participatory development is included in Part 2 of the 1991 Report of the Chairman of the Development Assistance Committee, Development Cooperation: Efforts and Policies of the Development Assistance Committee, December 1991, OECD, Paris.
- 2/ See Paul Romer, Endogenous Technical Change, Journal of Political Economy, 1990; World Bank Discussion Paper 131, 1991. See also Jacob T. Schwartz, America's Economic-Technological Agenda for the 1990s, Daedalus Vol. 121, No.1, of the Proceedings of the American Academy of Arts and Sciences, Winter 1992 which suggests that new, high technology industries are characterized by constant shifts in manufacturing methods and in the quality of products as well as secular cost declines. In such successful industries, once the "entry" costs of research and development have been incurred and provided they are maintained above a certain threshold, quality is continually adjusted to clients' needs and production costs continually fall, i.e. the supply schedule slopes in the opposite direction from the neoclassical curve. Unsurprisingly, different policy conclusions are inspired by such production functions.
- 3/ Stephan Haggard and Steven B. Webb, What Do We Know About the Political Economy of Policy Reform?, Harvard University and the World Bank, Unpublished Draft, March 1991.
- 4/ World Bank, Global Economic Prospects, Washington D.C., 1992
- 5/ Ibrahim F. I. Shihata, The World Bank in a Changing World, Martinus Nijhoff Publishers, 1991.
- 6/ Peter F. Drucker, Where the New Markets Are, Wall Street Journal, April 9, 1992.
- 7/ The Japanese word asobi combines the notions of play, teamwork and flexibility.
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- 9/ Robert W. Keidel, A Concept of Organizational Design, Unpublished Draft prepared for the World Bank, April 16, 1992.
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- 15/ Robert Wade, The Management of Irrigation Systems: How to Evoke Trust and Avoid Prisoner's Dilemma, World Development, Vol. 16, No. 4.
- 16/ Paul P. Streeten, Global Institutions for an Interdependent World, World Development, Vol. 17, No. 9, September 1989.
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